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Restaurant Business

MAY 1, 1989

1989 BUSINESS LEADERSHIP AWARDS

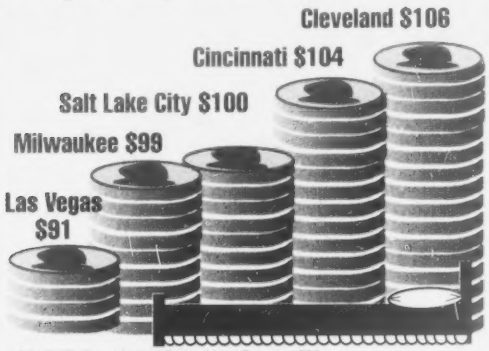
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Howard Riell

LEAST EXPENSIVE HOTEL CITIES

One night's average double room, 1988



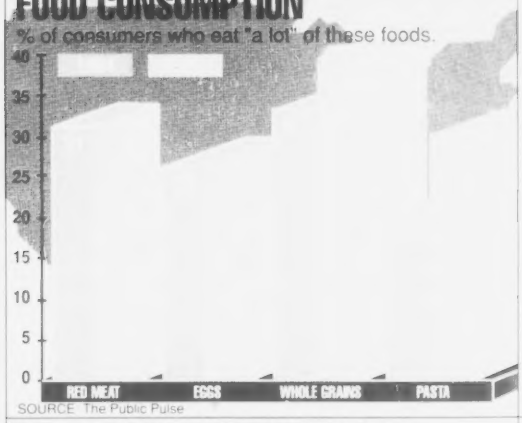
SOURCE: Zagat United States Hotel Survey, 1988

Where To Stay And Hardly Pay

Rounding out the Top 10 least expensive hotel-room cities are Hartford, CT ($107); Nashville ($108); Louisville ($108); Baltimore ($110); and Atlanta ($111). In addition to finishing second in average price, Milwaukee topped the Zagat survey's "Bang for the Buck" quotient (in which a hotel's overall quality rating is divided by its cost). Following Milwaukee on this scale were, in order, Las Vegas, Nashville, Atlanta, Salt Lake City, and Memphis. Among the *most* expensive hotel cities: New York ($167), Los Angeles ($150), and Miami ($148) head that list.

FOOD CONSUMPTION

% of consumers who eat "a lot" of these foods.



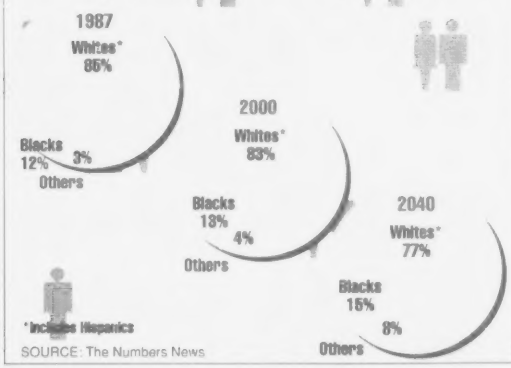
SOURCE: The Public Pulse

Americans Say They Are Eating Healthier

Americans' pursuit of a more healthful lifestyle, according to *The Public Pulse*, shifts from exercise to diet as one slides into middle age. Indeed, older people are "much more careful" about the foods they eat. Consumers appear to be opting for moderation, opining that their ideal diet now includes only a "very small amount" of red meat and eggs. Foods like pasta and whole grains are being eaten in greater quantities both for their reduced caloric content and as sources of energy. The much-reported "greying of America" should only escalate the current consumption trends.

U.S. RACIAL COMPOSITION

% of total population, 1987 to 2040



SOURCE: The Numbers News

New Opportunities For Niche Marketers

With niche marketing gaining more and more importance among foodservice operators, the changing demographic composition of the United States will continue to play an increasingly vital role. America is shifting to immigration as its major source of population renewal. By 2019, immigration will add more to America's population than natural increase (births) will. Most immigrants will come primarily from Latin America and Asia. Hispanics (included in the "whites" category) will account for more than 17% of the population of the United States by 2040.

RESTAURANT BUSINESS

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Cover illustration by Javier Romero

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REPRINTS, INDEX AVAILABLE

Restaurant Business *now has available specially prepared reprints of the* 1988 RESTAURANT GROWTH INDEX *and the* 1988 MAJOR FORCES IN FRANCHISING. *The reprints are available for $5 per copy.*

In addition, Restaurant Business *is now offering its* 1988 EDITORIAL INDEX *for $25 per copy.*

Direct inquiries to: Editor Peter Berlinski, Restaurant Business, *633 Third Avenue, New York, NY 10017.*

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IN THE NEXT ISSUE

COVER STORY

OUTLOOK: THE 1990s

As the decade draws to a close, *RB* turns to the experts to find out what to expect on several fronts that have a direct impact on the foodservice industry, including consumer trends, the economy, technology, labor, and competition throughout the 1990s. But perhaps the biggest issue of the coming decade promises to be the crisis in solid waste management, which will be examined in depth in a special section.

MARKET SEGMENT REPORT

MEXICAN

Although Mexican food has emerged as one of the nation's favorite ethnic treats over the past decade, the segment is still vastly underexploited. Entire pockets of the country, in particular the Northeast, middle Atlantic, and Southeast, are virtually untapped, and Americans have yet to plumb the depths of authentic fare.

MENU IDEAS

DAIRY

In the next issue, food editor Scott Allmendinger shows operators how to say "cheese"—and milk, butter, and other dairy products, all cost-effective ingredients with superior nutritional properties.

DRAFTS, CARAFES & SPIRITS

WINE-MATCHING DINNERS

Many operators are realizing the merchandising potential of pairing wine and food, and are developing special promotions, programs, and menus to spotlight this felicitous marriage.

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SCOUR
NYLON
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FROM
SYSCO

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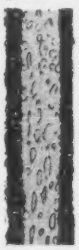

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MARKET SEGMENT REPORT

Fallbrook, CA-based Cindy's Cinnamon Rolls sells giant cinnamon rolls.

BY JACQUE KOCHAK

There is no question that as "monochromatic bakery" exists for frozen baked breads, cinnamon rolls—unlike pies and cakes—are one item that offers variety. The question is whether there is room for all the specialty retail bakeries scrambling for a piece of the pie.

"I think you're going to see a landscape strewn with the bodies of many specialty bakers in less than a year's time," is the ominous opinion of Kevin Murphy, vice president of La Mirada, CA-based Winchell's Donuts.

Restaurants that serve baked goods are flourishing, as are some specialty retail bakeries. Some of the news is troubling, however, and the picture is decidedly mixed. For example, a number of companies that boasted ambitious growth plans a year ago have cut back expansion dramatically—and many have even closed units.

At least two cinnamon roll purveyors that were touting expansion plans less than a year or two ago have succumbed to bankruptcy. Yet other companies report that sales are holding up and they are continuing to expand.

One cinnamon roll purveyor is said to be experiencing difficulties while another is reporting its best year ever, and yet another is vowing to continue its move out of shops and into supermarkets.

"It is very difficult to succeed in the specialty bakery business. We're one of the few companies that have. Some of the new bakeries will succeed, and some will fail," says Sid Feltenstein, vice president of marketing for Randolph, MA-based Dunkin' Donuts.

"There's definitely some shakeout among the weaker companies. This is a very competitive business," agrees Ken Hill, president of Kansas City-based T.J. Cinnamons, which started life as a cinnamon roll concept but is steadily moving toward more variety.

A look at history indicates that such a shakeout is to be expected, however. First donut shops attracted then sated the customer's sweet tooth. Some of these limited-product retailers metamorphosed and grew. While others floundered.

Then came the cookie shops, which followed the same pattern. Now the cinnamon roll shops that garnered so much attention a couple of years ago are evolving and changing, with weaker players dropping out.

"It is so easy to get into the specialty retail bakery business, but it is much harder to make money," notes Thomas

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MARKET SEGMENT REPORT

Dunkin' Donuts has broadened its appeal with new items such as this croissant sandwich.

Barbee, president of Memphis-based Cinnamon Corner Ltd., which operates eight bakery cafes in that area. The numbers are not as big as other operations that we have been involved in, and the learning curve is steep."

THE PROBLEM. There seem to be plenty of hungry customers. The problem is that competition for suitable high-traffic locations, especially in regional malls, is intense. Rents are sky-high in malls and major urban business centers, and it is difficult to capture the volume necessary to justify the rents.

"We are very real estate cost-conscious. Rents are going to have to come down substantially to make operating a single-product small retail bakery worth anybody's time," says David Liederman, president of New York City-based David's Specialty Foods, formerly David's Cookies.

One way that David's is coping with the rent crunch is to group several brand names in one location. A Washington, DC, unit combines David's Cookies, Steve's Ice Cream, and Colombo Yogurt outlets under one roof. "The reason is purely economic," says Liederman. "One manager runs three concepts, so that the total gross is much higher."

The reason that high-traffic locations are such an important factor in the specialty retail bakery business is that drawing the customer out of his way to purchase baked goods has proven nearly impossible.

"We're crunched on all fronts," says Winchell's Murphy. "The largest hurdle for us to overcome is giving customers a reason to stop at our stores, when they can just buy their fresh baked goods at supermarkets."

THE IMPORTANCE OF QUALITY. One thing is clear: Customers are becoming ever more sophisticated in their tastes, they know and expect quality. Success in the bakery business depends on quality.

"I would not want to be located in a mall, paying the rents we're paying, if we were selling white bread," says Erik Gordon, president of Atlanta-based Great American Chocolate Chip Cookie Co. "Your name has to stand for something that is really good."

One boon to the bakery business has been the recent excitement about oat bran, which is said to reduce cholesterol. Oat bran adapts easily as an ingredient in cookies and muffins, and nearly every major retail baker has added oat bran products.

DONUT SHOPS. Dunkin' Donuts' success illustrates that a company that started life as a specialty retail bakery can thrive and grow on a large scale. The largest chain in the donut segment operates more than 1,500 units in the U.S. and 51 foreign countries.

The company has seen systemwide sales soar from $648 million in 1987 to $790 million in 1988, with per-store average sales increasing from $454,000 to $480,000, says Feltenstein.

He attributes the increases to a continuing program to expand Dunkin' Donuts' product line and upgrade units, coupled with improved advertising and better market penetration.

Since 1984, Dunkin' Donuts has introduced various new products such as cookies, brownies, muffins, and croissants. The company has also added drive-thru windows and express-service counters to remodeled stores.

Newest menu additions are nine varieties of filled croissants and oat bran muffins. This helped to stimulate business during dayparts other than breakfast, although Feltenstein acknowledges that the bulk of Dunkin' Donuts' sales still come in the morning.

The second largest company in the donut segment is 650-unit Mister Donut of America Inc., part of Minneapolis-based International Multifoods.

About 25% of Mister Donut's menu mix is comprised of baked goods such as brownies, cinnamon rolls, "gourmet" cookies, danish pastries, filled croissants, and specialty breads.

While Mister Donut's units are grouped in the Midwest and East, Winchell's Donut Houses, a division of La Mirada, CA-based Denny's Inc., operates most of its 670 units on the West Coast. Systemwide sales in 1988 were $144 million.

Winchell's vice president of marketing Kevin Murphy notes that while donuts are no longer a fad, they are almost as American as apple pie, and are viewed as a fun food and a comfort

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CINNAMON ROLL CONCEPTS

One specialty retail bakery that has stuck closely to its original calling is Atlanta-based Great American Chocolate Chip Co., with more than 300 units nationwide.

clear his intention to expand the company's product line. T.J. Cinnamons' trademark product is an enormous, high-quality cinnamon roll made on the premises in front of customers. This year, that has been complemented by a full line of muffins, a full line of cookies, and a full line of brownies.

"Our product mix continues to evolve," says Hill. "I don't see this as a great departure, because I stated from the beginning that a company couldn't operate forever with a single product line."

Ten flavors of regular muffins as well as three flavors of oat bran muffins are available, selling for 99¢ to $1.29 apiece. Soft cookies come in all the conventional varieties, and cost about 69¢ each.

Despite the additions, Hill admits, T.J. Cinnamons' sales are running flat. So far, product line additions account for only about 20% of sales; that is growing steadily, however.

Like other specialty retail bakers, T.J. Cinnamons continues to seek out high-traffic locations such as regional malls and specialty centers.

Widely viewed as a tough competitor is Seattle-based Cinnabon, a division of Restaurants Unlimited. Cinnabon operates about 100 units, with more than half of them company-owned. Company units are located on the West Coast and in Hawaii; franchised units are scattered from Texas and Colorado in the West to New York, New Jersey, and Florida in the East.

Development plans call for opening 15 to 20 company stores in the next year, while franchisees are expected to open some 40 units. Almost all will be located in regional malls.

Cinnabon is probably the only cinnamon roll purveyor that has elected to remain focused on its original product. No other product is served; the most radical innovation is that Cinnabon has tested a smaller version of its Cinnabon, to be rolled out this spring.

The new cinnamon bun is about 40% of the original's size, and will be sold in packages of 15, according to Dennis Waldron, Cinnabon's executive vice president.

In addition to cinnamon rolls, Cinnabon offers specialty ground coffees, soft drinks, milk, and juices. The company is testing a signature drink called Mochabon, a chocolate/espresso milk-based drink with whipped cream, served over ice.

Although T.J. Cinnamons and Cinnabon are the largest companies around specializing in cinnamon rolls, two smaller companies have established a firm presence in the market. Very similar in concept, both Mrs. Powell's Delicious Cinnamon Rolls and Cindy's Cin-

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namon Rolls serve a cinnamon roll that is less "gourmet" and more bready.

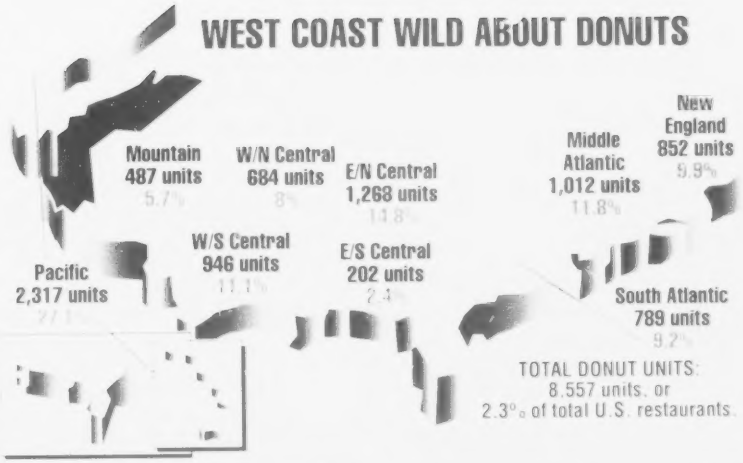
Mrs. Powell's, founded in Idaho Falls, ID, was recently sold by founder Dick Powell to Boston-area businessman Peter Scaccia. The Powells felt that the company needed a stronger financial foundation. Growth over the last several years had been financed out of cash flow. Scaccia now serves as president while Powell focuses his energy on marketing and developing new franchisees.

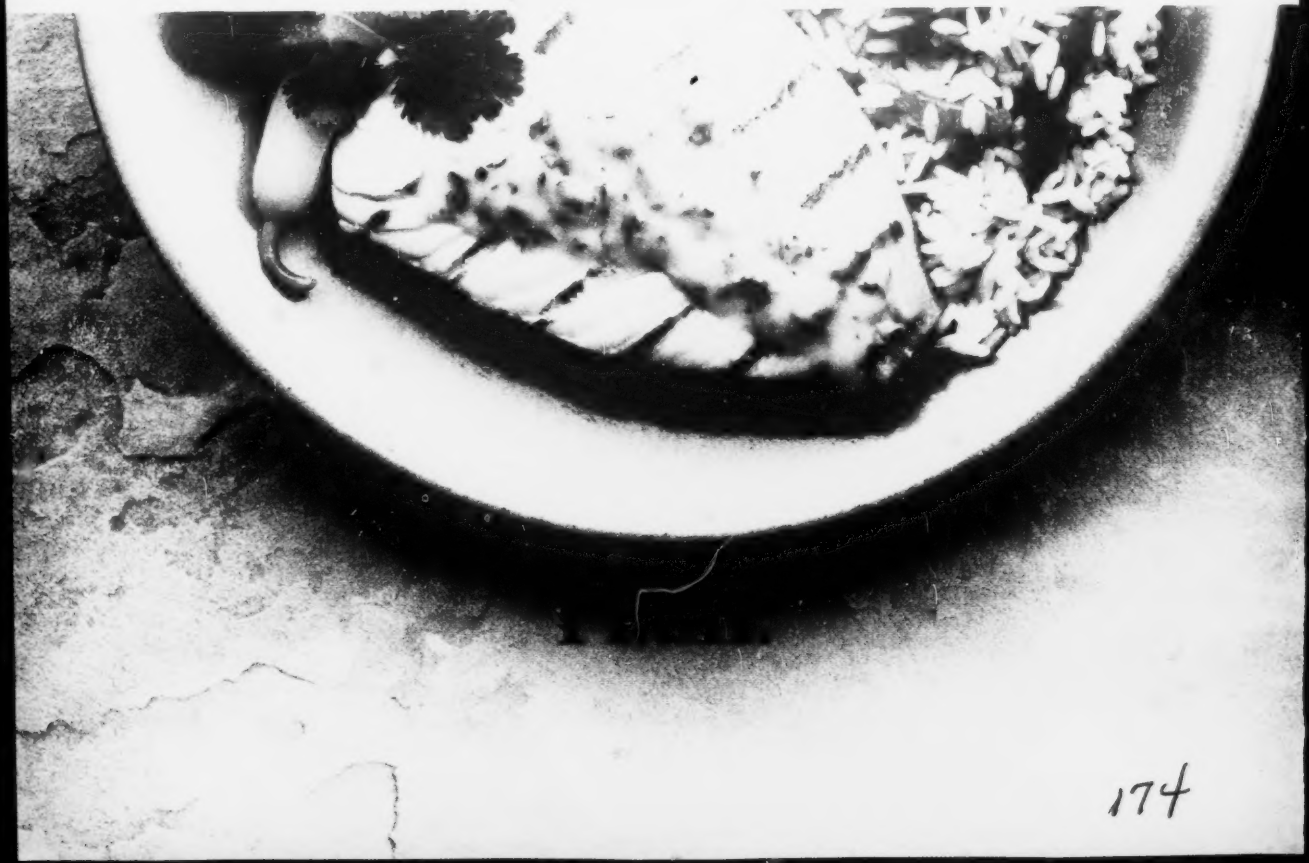
The company currently operates 48 franchised units, with five more to open in the near future. Two new company stores will open in Massachusetts. In the last year, eight stores have closed because of poor locations.

Because of concern about high rents and good locations in malls, Mrs. Powell's decided to try to focus on outside locations, says Powell. For now, 85% of units are still located in malls, but Powell says that percentage will change.

As part of the shift, Mrs. Powell's is attempting to build the luncheon daypart with a soup-in-a-loaf product, which is literally soup served in a loaf

WEST COAST WILD ABOUT DONUTS





of bread. Two or three soup flavors rotate daily.

Also expanding its menu is Fallbrook, CA-based Cindy's Cinnamon Rolls. While the centerpiece of the menu is still a big, bready cinnamon roll, Cindy's has added multilayered French puff pastries in such flavors as raspberry and nut. Cindy's also recently introduced a bear claw pastry filled with chocolate, as well as the ubiquitous oat bran muffin. In addition, a featured product is introduced every quarter. The current feature is a cherry-cheese roll with cream cheese frosting and cherries inside.

According to president Tom Harris, Cindy's sales are holding steady. Sales would have slipped without the addition of new products, he acknowledges. Cindy's continues to expand, with some 16 stores added last year to make a total of 52 units now open. All are franchised. Most of the company's recent growth has been in the Northeast, Harris notes.

COOKIES. David's Cookies, one of the original specialty cookie bakers, has opted to move steadily away from being a retail bakery since 1984.

At one time more than 150 David's Cookies operated in 22 states as well as in countries overseas. Liederman's company owned as many as 30 of the stores, but that number has been pared down to only one company-owned store. Some 100 other units continue to operate, with a newer company, David's Specialty Cookies, providing product.

The major focus of David's Specialty Cookies, however, has been to provide David's products to supermarkets and department stores. "There are a lot more of them, and they are more affordable than sites for retail bakeries," Liederman says. "As far as I'm concerned, small single-product retail bakeries are a thing of the past."

Park City, UT-based Mrs. Fields Inc.'s chairman Randy Fields was unavailable for an interview, but industry

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observers say that the company is experiencing difficulties. According to a recent article in the *Wall Street Journal*, Mrs. Fields last year closed or made plans to close about 95 of its 600 cookie stores. In addition, the company reported sizable financial losses for 1988, and the price of its stock on the London exchange plummeted.

Competitors speculate that Mrs. Fields didn't react quickly enough to the changing specialty bakery market, and was slow to diversify into other product lines. Fields and his wife Debra, who is the company's chief executive, blame the financial losses solely on expenses related to opening a new combination store, which combines the Mrs. Fields concept with La Petite Boulangerie, a full-line bakery acquired from PepsiCo in 1987.

The company's future growth will focus on the combination concept; some 32 are already open, and the company plans to open as many as 30 more this year. The strategy is seen as risky, however, because the combination stores are three times the size of Mrs.

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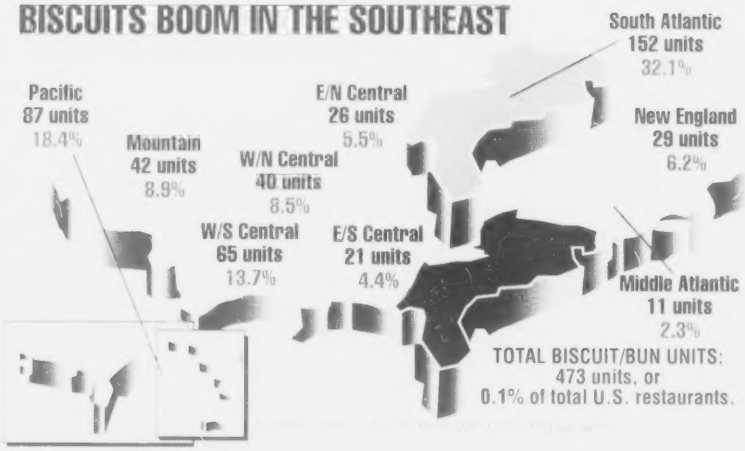
BISCUITS BOOM IN THE SOUTHEAST



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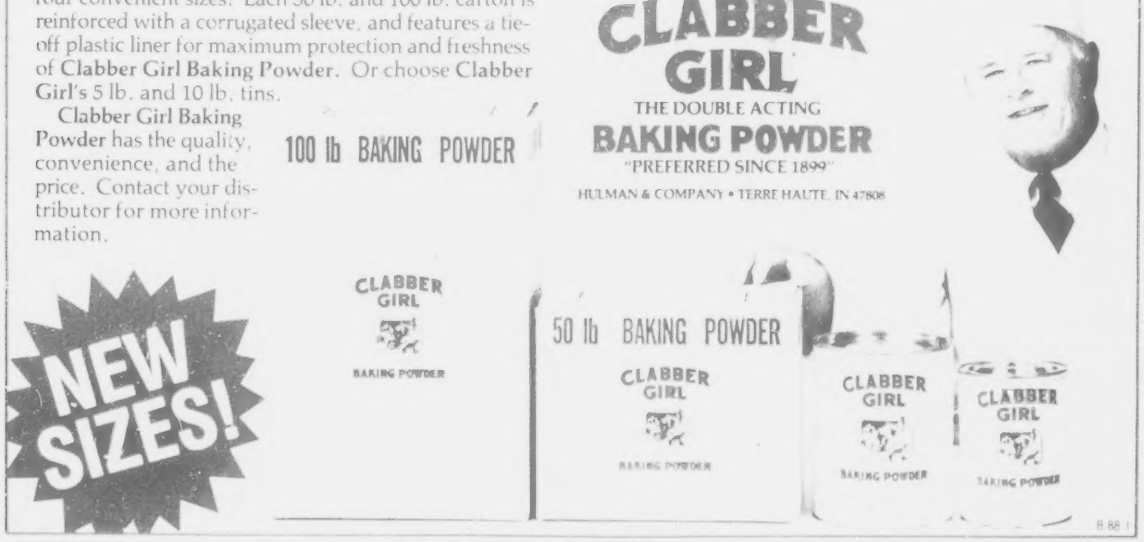

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Fields' cookie outlets and, besides cookies, they sell a variety of baked goods, soup, bagels, and sandwiches. Massive retraining for both employees and management is necessary.

CONTINUED OPTIMISM. One specialty retail bakery that has stuck closely to its original calling is Atlanta-based Great American Chocolate Chip Co., with more than 300 units nationwide.

COO Erik Gordon continues to be optimistic about prospects for specialty retail bakeries, and well he might be. Although he is reluctant to disclose specific figures, Gordon says that Great American Chocolate Chip Cookie Co. just finished its best year ever in several areas. Not only have profit margins improved, but existing stores have posted their greatest sales increases ever, and more stores opened than ever before.

The company's newest product is a cheesecake brownie, which has brought big incremental sales. Gordon is doubtful that Great American Chocolate Chip Cookie Co. will ever follow a strategy of diversification. "We see so much potential in the cookie business that we see no reason to chase anything else," he says.

MUFFINS. Muffins are viewed by some as holding more promise than cinnamon rolls, simply because muffins are much more flexible.

"Somebody is going to make some good money in the muffin business," says one bakery competitor. "But nobody has made a big mark yet. The field is still wide open."

One company that hopes to eventually make the big mark is Middlesex, NJ-based U.S.A. Treats Corp., which operates 20 mall units in the U.S. It is also the U.S. franchisor of Canadian Treats, which is a potent force there.

Treats offers six or seven varieties of muffins every day, in addition to three to five special flavors. Some 60 varieties are available in all, ranging from piña colada to chocolate pudding and cherries jubilee. And, of course, there is a trendy oat bran muffin.

Although muffins are Treats' signature item, only 30% of sales come from muffins. Another 20% to 25% derive from a cinnamon swirl product, and the remainder comes from a variety of products including cookies and a reformulated luncheon product, a stuffed bread.

U.S.A. Treats Corp. president Andrew Thorburn says that growth plans have been stymied by lack of capital and a poor money-raising climate. "It is discouraging, because store sales are increasing, and our products are very well received," he says. U.S.A. Treats Corp. also suffered in the process of taking over the U.S. license from a California company.

While Treats Canada opened 30 new stores in the last year, the U.S.A. Treats now has eight stores under construction. A number of new franchisees have been added in the last four months, Thorburn says.

Thorburn believes that not only is the precise location in the mall critical, but the size of the store is critical. "Either you open a very small unit, like 250 to 350 sq. ft., with no seating, or a 1,000-sq.-ft. unit with seating. Nothing in between," he says. "You have to have incredibly high sales in order to pay mall rents if you have a 750-sq.-ft. unit. The overhead is brutal, and the extra rent is a killer." He points out that in Canada, one mall unit measures only 90 sq. ft. Located in a converted bank teller station, the site receives baked goods from another area in the mall.

FULL-LINE BAKERIES. No company has really succeeded at operating a full-line bakery on a national basis. The Glass Oven, which tried a few years ago, failed. Vienna, VA-based Vie de France has gradually evolved from bakery-only to bakery/restaurants.

The market is largely dominated by local or regional bakers with a strong following, high-quality baked goods, and a few signature items.

Why is the national market so impervious to development? For one thing, a chain bakery must offer very high-quality goods to compete with locals, and the cost can be prohibitive. Either a high-priced, trained baker must be in

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Dunkin' Donuts offers trendy oat-bran muffins to health-conscious customers.

residence at each location, or frozen dough must be shipped out.

The potential seems to be there, however. In Italy, for example, a company called Il Fornaio operates more than 1,500 bakeries throughout the country, and is now offering its goods through several outlets in California.

Operators who have tried to run full-line bakeries on a chain basis have also frequently been disappointed in the return on investment. Typically, they have started out as bakeries, and gradually added such line extensions as soups and sandwiches as they transformed their units into bakery/cafes in an attempt to boost sales.

One low-profile company that has shown that a bakery/cafe can succeed with the right approach and the right management is Boston-based Au Bon Pain. The chain has 60 cafes in Massa-

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A pioneer of the cinnamon bun phenomenon, Kansas City-based T.J. Cinnamons, has greatly extended the scope of its bakery offerings.

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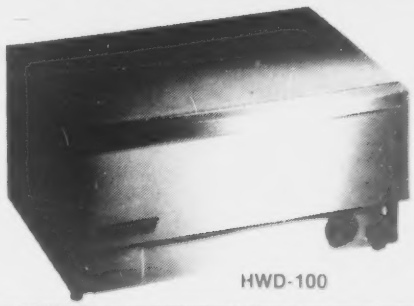

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chusetts and New York State and Washington, DC, Philadelphia, Minneapolis, and Chicago. Sales in 1988 were $50 million; one unit alone grossed $3.4 million last year.

Au Bon Pain is clearly a quick-service restaurant, with customers lining up to place their orders at a counter, then being served quickly. Check averages are low. The emphasis is on high-quality fresh-baked goods, including croissants and breads.

The bakery products are incorporated into a menu that includes selections such as smoked turkey, chicken tarragon, and brie sandwiches; spinach-and-cheese croissants; cream of broccoli soup; fresh-squeezed orange juice; and cappuccino.

Owners Louis Kane and Ronald Shaich have centralized preparation in a South Boston plant. Products are frozen before rising, then delivered to the cafes. Baked products are proofed in warming ovens at units, then baked on premise.

Now that the concept has been proven, Kane and Shaich intend to expand to 130 cafes, with expected sales of $100 million by 1991.

A smaller company that has recently repositioned as a bakery/cafe concept is Memphis-based Cinnamon Corner Ltd., with eight stores open. Two company-owned stores are located in Memphis, with another in St. Louis. Franchised stores are located in New Orleans, Miami, Jacksonville, FL, and Butler, PA.

As the concept evolved, Cinnamon Corner added cookies, brownies, bagels, croissants, and coffee cakes, and last year added breads to its original product line. In some stores, hand-dipped ice cream has been introduced.

President Thomas Barbee says that Cinnamon Corner has finally made the transition to a bakery/cafe concept with the addition of deli sandwiches.

The transition from bakery to bakery/cafe happened about four months ago, with the object of increasing sales. "We don't feel that we have seen the full benefit of the changes yet," says Barbee. "Many of our locations are in spots with traffic available all day, not just at breakfast, but we didn't have any products to merchandise. So, we determined to expand our menu." Barbee expects the changes to increase sales by 15% to 20%.

RESTAURANTS WITH BAKERIES. Restaurants have always served baked goods, and with a renaissance of interest in fresh, high-quality bakery products has come an increased focus on baking in restaurants.

One indication of the popularity of baked goods is recent figures released by the National Restaurant Association showing that dessert orders in restaurants increased by 5.6% in 1988, following an increase of 3.2% in 1987. Between 1982 and 1987, desserts ordered in restaurants declined 1.3%.

While ice cream is the dessert of choice in restaurants (representing 51% of all dessert orders in 1987), baked goods are also quite popular when offered. Pies accounted for 11% of all dessert orders in 1987; cakes accounted for 9%; and cookies accounted for 8%.

Who is most likely to order dessert? Despite their penchant for calorie counting, the biggest fans of desserts are women, who accounted for 54% of dessert occasions in 1986, compared to 46% for males. The age groups most likely to eat dessert, according to the NRA, are 25- to 34-year-olds and 35- to 54-year-olds, who together represent 35% of dessert occasions.

The NRA adds that dessert displays—most frequently an array of scrumptious baked goods—are popular features offered at more than 10% of all tableservice restaurants.

And dessert is a hot item at fast-food restaurants, as well. According to a Gallup survey conducted for the NRA, dessert ranks third, behind salad and fruit, as the item consumers would most like to purchase from a food bar at a restaurant. Some 73% of those customers who have purchased items

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Seattle-based Cinnabon, a division of Restaurants Unlimited, is the only cinnamon roll purveyor that has elected to remain specialized with its original product.

from a food bar said they would like dessert to be available.

A few chains and innumerable independents have made their reputations by offering a wide variety of fresh-baked goods. One of the best-known is Bakers Square restaurants, part of Denver-based VICORP.

Bakers Square restaurants began life a number of years ago as Pepper Fresh, a division of Pillsbury. In 1983, Pillsbury sold the chain to VICORP, which then converted them to its own concept.

Then VICORP made national news by buying a large number of defunct Sambo's units with the stated intention of converting them to two of its concepts, Bakers Square and Village Inn. Swallowing such a large number of troubled units and attempting a turnaround took heroic effort, but Bakers Squares are now flourishing.

Some 151 units are now in operation, with 64 in the Midwest, 84 on the West Coast (these are converted Sambo's units), and three in Florida. The Sambo's conversion on the West Coast was finally completed last year, and some units are now so busy that additions are being added to accommodate the overflow of customers, says Landa Basile, director of restaurant accounting.

Bakers Square restaurants specialize in pies, with up to 40% of sales of the average unit's $1.4 million annual gross being derived from bakery goods. Of that 40%, typically 20% comes from take-out, says Basile.

The menu includes from 26 to 30 pies, as well as cinnamon rolls, caramel rolls, and a couple of cakes. The company is also experimenting with cookies. Pie varieties range from apple and cherry for about $4.70 on up to an "Elite" line of extra-fancy pies priced at $8.25. Such favorites as pecan and banana cream cost in the $6 range.

Because of the skill necessary to provide high-quality baked goods, Bakers Square utilizes a commissary system. Nine commissaries operate in markets where Bakers Squares are located. Pies are baked every night, then delivered on trucks every day to restaurants. On premises, baked goods are displayed in refrigerated cases.

Fresh-baked goods are such an effective sales builder that VICORP has added pies to the menus at some Village Inns. In fact, commissaries that are used primarily for Village Inn restaurants are operating in Omaha, Orlando, and Phoenix.

The popularity of pies has led Lubbock, TX-based Furr's Bishop's Cafeterias, the second largest operator of cafeterias in the U.S., to open a second Furr's Pie Kitchen in Lubbock.

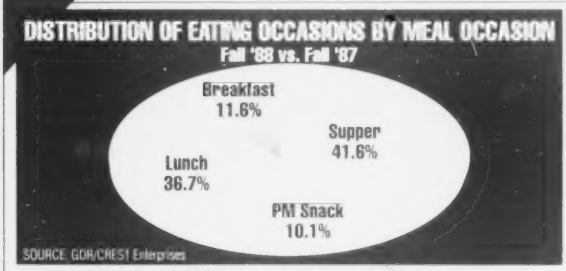
One Pie Kitchen has been open for 20 years, says president Don Fritz. At one time, seven or eight other Pie Kitchens were in operation, but over the years they all closed. Now, says Fritz, Furr's is carefully studying the concept as part of its expansion planning.

The menu features approximately 30 pies, ranging from traditional favorites such as apple or lemon meringue to more exotic specialties.

What does the future hold for purveyors of baked goods? It is clear that interest in baked goods will continue to grow, and any restaurant that successfully incorporates a baking program into its operations will probably reap benefits. The future of specialty retail bakeries is less well-defined, however. This is a tough business, but some will survive and prosper. $

Originally called David's Cookies, David's Specialty Foods now focuses on selling a variety of products to supermarkets and other outlets.

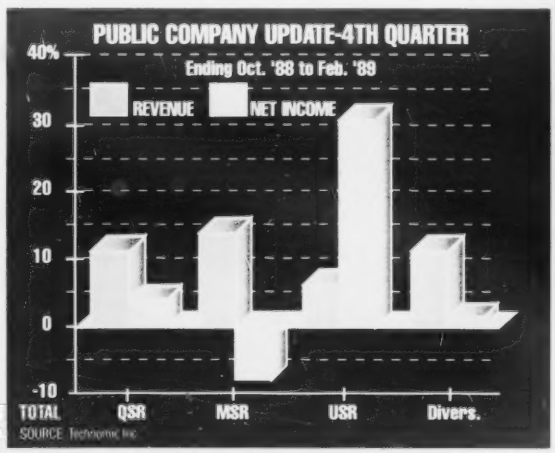
LATELINE



DISTRIBUTION OF EATING OCCASIONS BY MEAL OCCASIONS

The distribution of eating occasions by daypart has not changed significantly when comparing fall 1988 to fall 1987. Dinner remained the largest daypart, representing nearly 42% of all eating occasions, but showed no growth in traffic counts. Similarly, lunch, which represents 36.7% of eating occasions, showed no increase in traffic counts.

Breakfast suffered a decrease of 3.0% in traffic counts in fall 1988 as compared with fall 1987, while the p.m. snack traffic counts increased 2.0%. Afternoon snacks now represent 10.1% of all restaurant eating occasions.

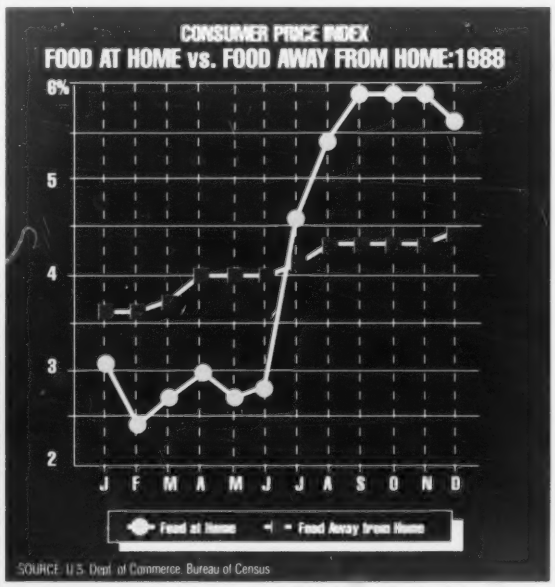


PUBLIC COMPANIES: 4TH QUARTER RESULTS FOR 1988

Revenues from restaurant operations increased to a healthy 11.3% in nominal terms for the 90 largest publicly held restaurant chains during the 4th quarter of 1988 (ending October to February).

However, net income growth trailed revenue growth, increasing by less than 3.0%. The quick-service segment accounted for a modest 4.0% in income growth, even though this segment was led by a strong 16.8% increase by McDonald's. Thanks to robust revenue growth by a number of midscale chains, including Shoney's, Luby's, and Cracker Barrel, revenues jumped nearly 14%. Conversely, restructuring costs led to Shoney's $11 million decrease in income from last year's quarter. This was largely responsible for the 8.1% drop in income for midscale units.

Due almost entirely to strong performances by Chili's and TGI Friday's, net income for the upscale segment jumped 31%. Friday's had a 750% increase, to $3 million, while Chili's posted a 110% jump, to $2.7 million. The diversified segment (Collins Foods, PepsiCo, Pillsbury, etc.) includes results from restaurant operations only.



FOOD AWAY FROM HOME VS. FOOD AT HOME: 1988

According to the U.S. Department of Labor, the Consumer Price Index for Food Away From Home (FAFH) jumped a relatively modest 4.0%, whereas Food At Home (FAH) grew by 4.2% in 1988.

Closer observation suggests that FAH began the year with a smaller rate of growth than FAFH, but surpassed it in July with a monthly rate of 4.6%.

Prices for home consumption products grew steadily in the fall months, reaching an estimated high rate of 5.9% while the foodservice industry remained relatively unaffected.